Foundations of MARKETING

Seventh Edition

Chapter 5

Target Markets: Segmentation and Evaluation

Pride | Ferrell

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Learning Objectives

5-1 Explain what markets are and how they are generally classified.

5-2 Identify the five steps of the target market selection process.

5-3 Describe the differences among general targeting strategies.

5-4 Identify the major segmentation variables.

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Learning Objectives (continued)

5-5 Explain what segment profiles are and how they are used.

5-6 Explain how to evaluate market segments.

5-7 Identify the factors that influence the selection of specific market segments for use as target markets.

5-8 Discuss sales forecasting methods.

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Markets

Groups of people, individuals or organizations that have

- Desire or needs for products in a product class
- Ability, willingness, and authority to purchase such products

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Consumer and Business Markets

- **Consumer market** - purchasers and household members who intend to consume or benefit from the purchased products and do not buy products to make profits
- **Business market** - purchase a specific kind of product for resale, direct use in producing other products and use in general daily operations
  - Producer
  - Reseller
  - Government
  - Institutional markets

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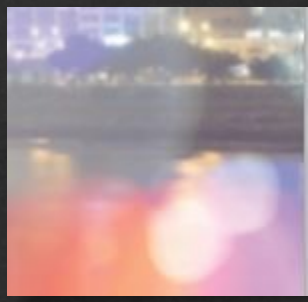
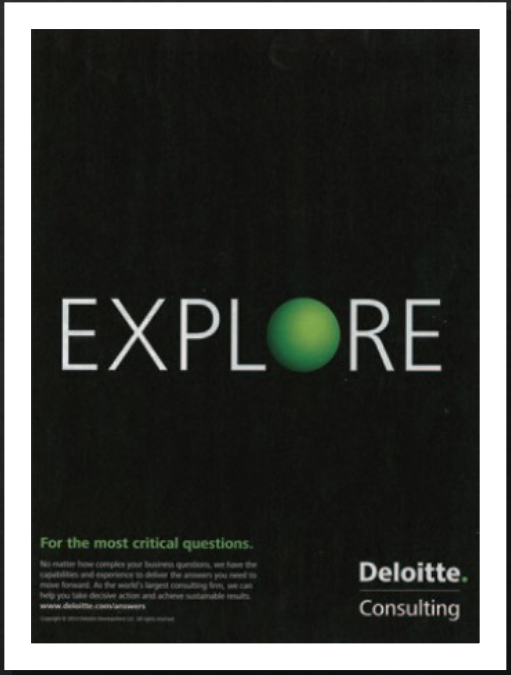
Discussion Point – Types of Markets



Source: Kraft Foods



Source: Deloitte LLP

Oscar Mayer advertises to consumer markets, whereas Deloitte Consulting advertises to business markets.

What are some other examples of ads for the consumer market and the business market?

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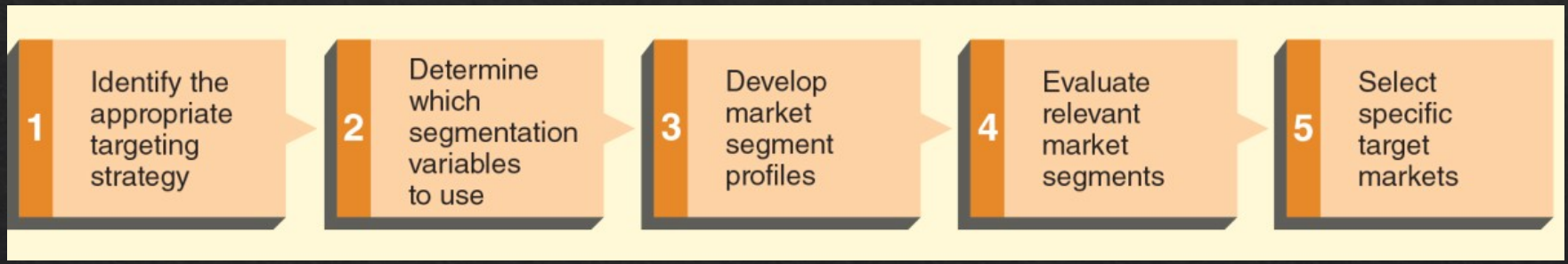
Figure 5.1 - Target Market Selection Process



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Step 1 - Identify Appropriate Targeting Strategy

- Target market - consumers for whom a business creates and maintains a marketing mix
- Strategy selection for target market is affected by
  - Target market characteristics
  - Product attributes
  - Organization’s objectives and resources

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Figure 5.2 - Targeting Strategies

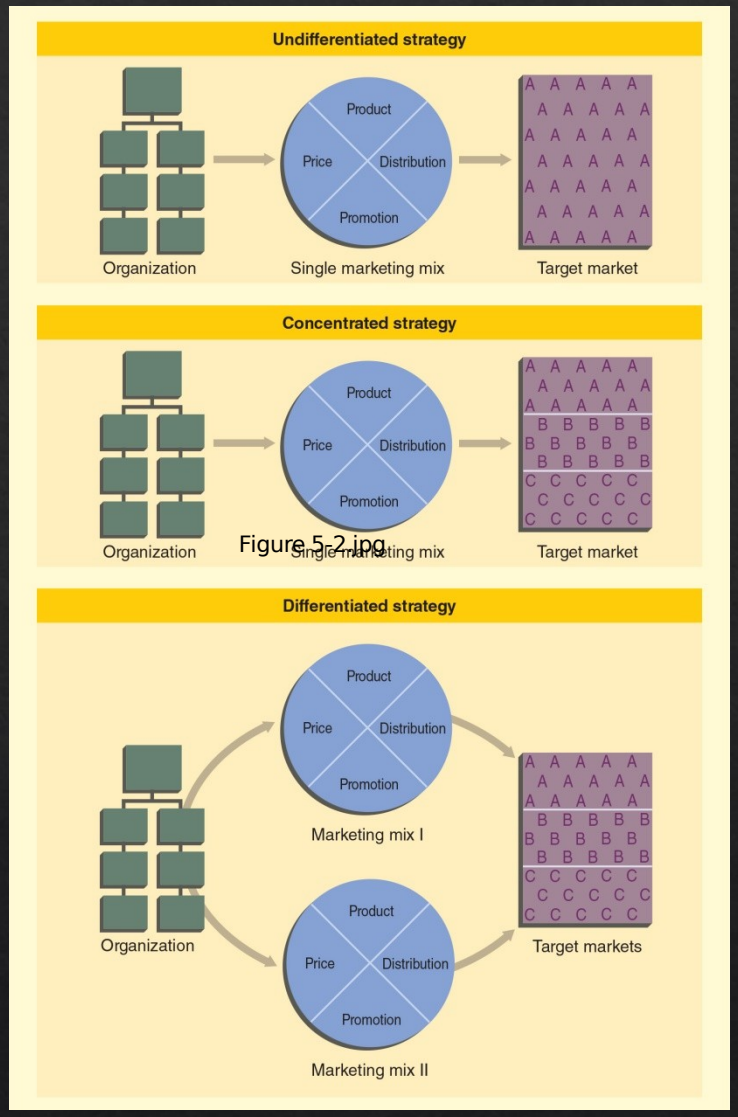

Figure 5-2.jpg

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Types of Market and Market Segmentation

- Types of market
  - **Homogenous market** - large proportion of customers have similar needs for a product
  - **Heterogeneous market** - customers have diverse needs for products in a specific product class
- **Market segmentation** - dividing a total market into groups with relatively similar product needs to design marketing mix
- **Market segment** - customer base sharing one or more similar characteristics that cause them to have similar product needs

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Conditions for Market Segmentation to Succeed

- Customers' needs must be heterogeneous
- Segments must be identifiable and divisible
- Marketer must be able to compare the different market segments in terms of sales potential, costs, and profits
- One segment must have enough profit potential to justify developing a special marketing mix
- Company must be able to reach the chosen segment with a particular

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Types of Targeting Strategies

- **Undifferentiated targeting strategy** - designs a single marketing mix and directs it at the entire market for a particular product; effective for homogenous markets
- **Concentrated targeting strategy** - targets single market segment using one marketing mix
- **Differentiated targeting strategy** - targets two or more segments by developing a marketing mix for each segment

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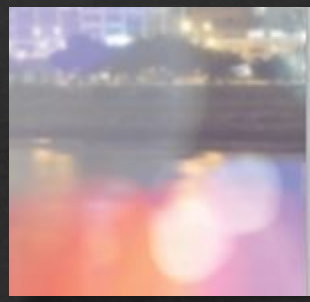
Discussion Point – Differentiated Targeting Strategy



Source: Nature's Way Products Inc

Source: Bayer HealthCare LLC.

Both Bayer Flintstones Gummies and Alive! Women's Multi-vitamins are using a differentiated targeting strategy to aim at a different, single market segment. Although both products are vitamins, they are not competing for the same customers.

What are the advantages of differentiated targeting?

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Concentrated Targeting Strategy

Advantages

- Allows a firm to specialize
- Permits a firm with limited resources to compete with larger organizations
- Increases sales in the aggregate market
- Ideal for organization with excess production capacity

Disadvantages

- Company's financial health declines when the segment's demand declines
- When a firm penetrates one segment its popularity may keep it from extending its marketing efforts into other segments
- Higher production cost

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Step 2 - Determine Which Segmentation Variables to Use

Segmentation variables - characteristics of individuals, groups or organizations used to divide a market into segments

- Should relate to the customers' needs for, uses of, or behavior toward the product
- Must be measurable
- Company resources and capabilities affect the number and size of the variables
- Product type and degree variations in customer needs

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Demographic Variables

- Age
- Gender
- Race and Ethnicity
- Income
- Family Life Cycle

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Figure 5.3 - Segmentation Variables for Consumer markets

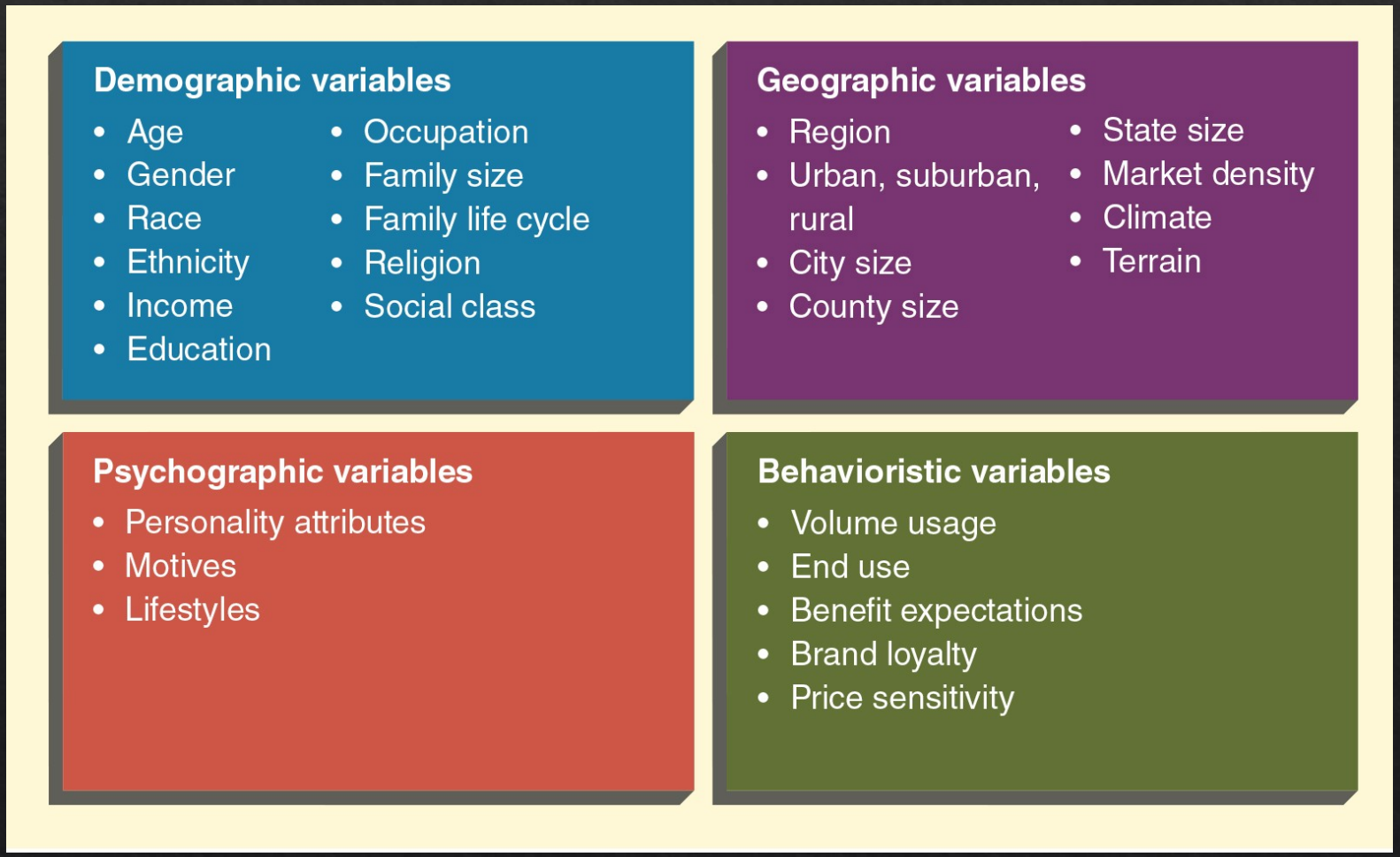

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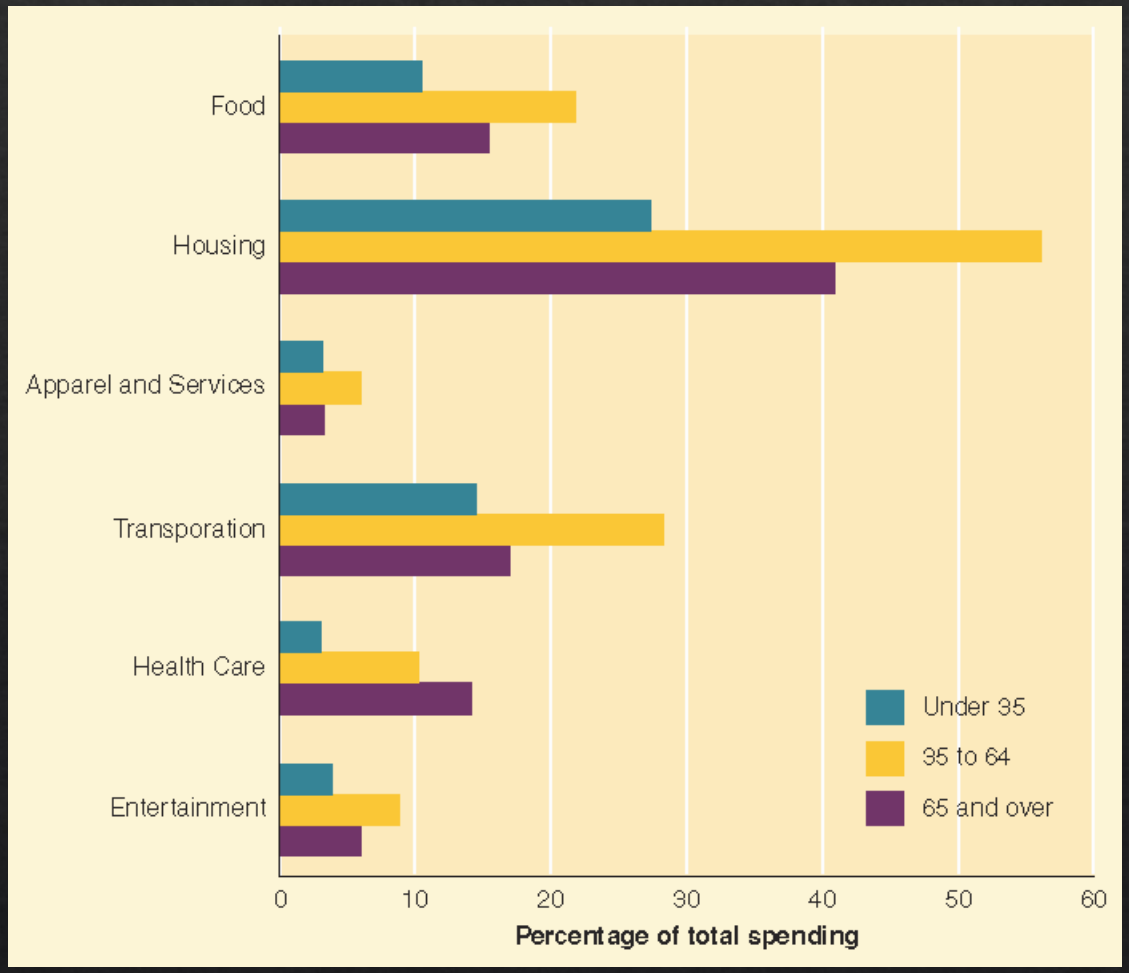
Figure 5.4 – Spending Levels of Three Age Groups for Selected Product Categories



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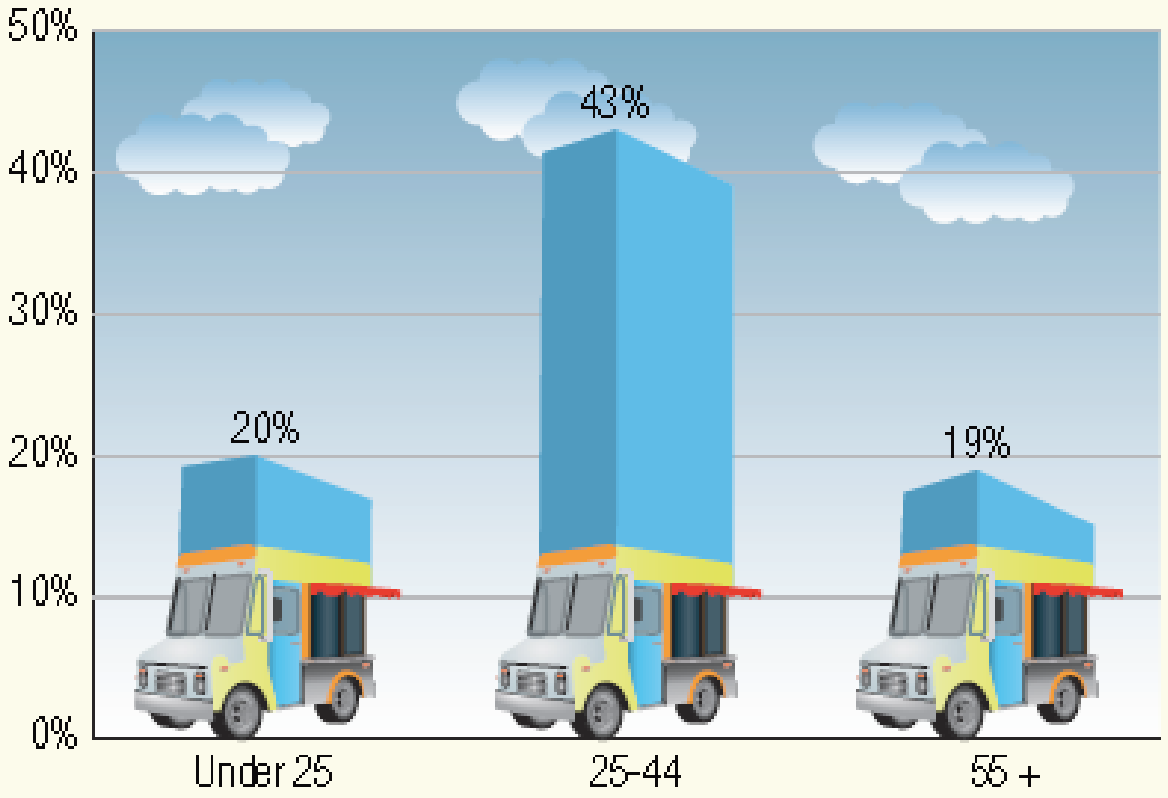
SNAPSHOT

Which Age Segment Likes Food Truck Food the Most?



Source: ibisworld.com.

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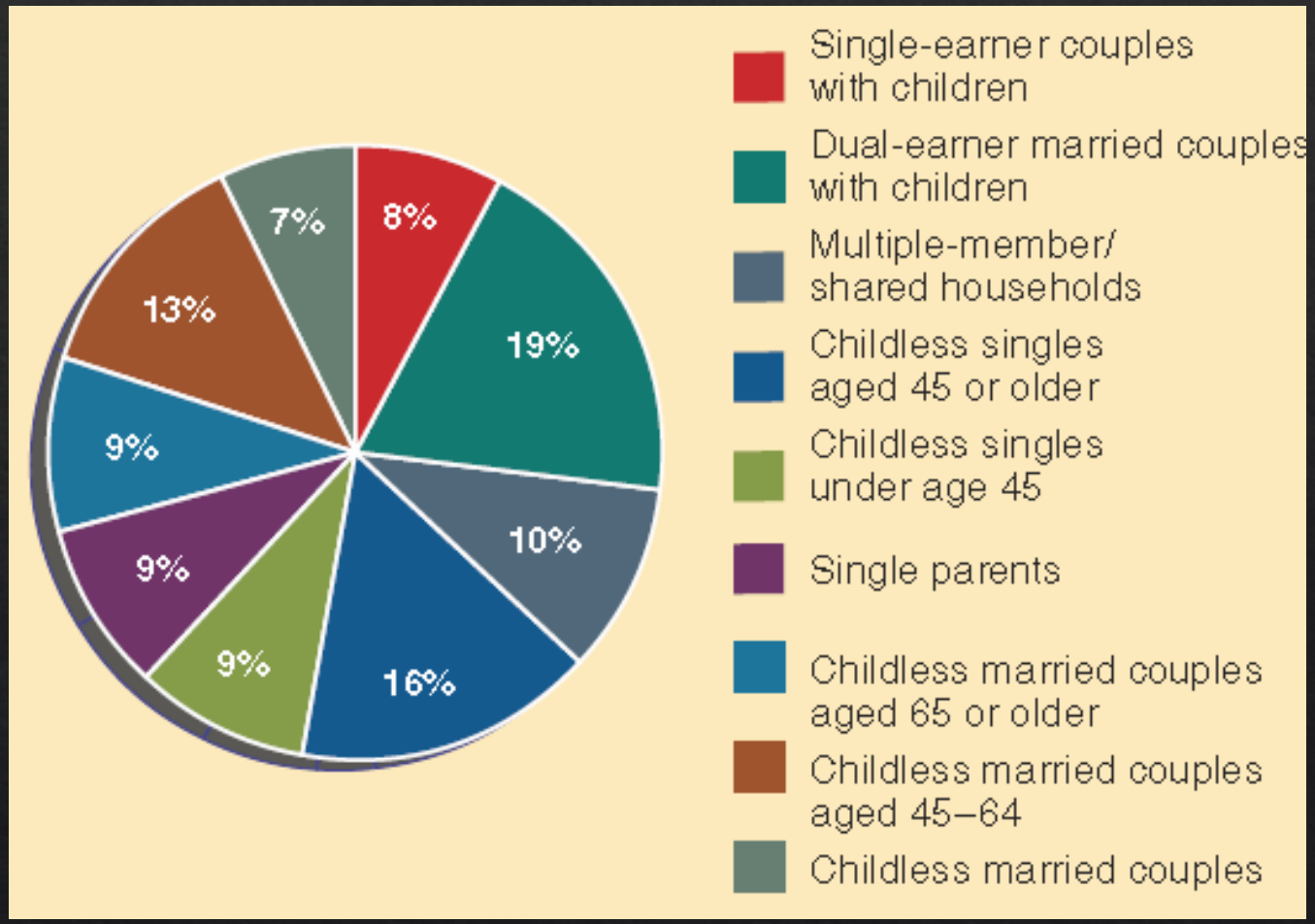
Figure 5.5 - Family Life Cycle Stages as a Percentage of Households



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Geographic Variables

- Climate and terrain
- City size and population density
- Urban area and rural area
- **Market density** - number of potential customers within a unit of land area

  Useful segmentation variable for firms because low-density markets require different sales, advertising, and distribution activities than high-density markets

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Geodemographic Segmentation

- **Geodemographic segmentation** - clusters people by zip codes or neighborhood units based on lifestyle and demographic information
- **Micromarketing** - focuses precise marketing efforts on very small geographic markets
- Climate - geographic segmentation variable
- Impacts people's behavior and product needs

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Discussion Point – Geographic Segmentation

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Climate affects numerous markets. Customers' needs for automotive accessories, such as tires, vary based on climate.

What are some other examples of how geographic location affects marketing strategies?

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Psychographic Variables

- Personality characteristics
  - Product resembles many competing products
  - Consumers' needs are not significantly related to other segmentation variables
- Motives - divides the market according to consumers' reasons for making a purchase
- Lifestyle analysis - characteristics related to people's activities, interests, and opinions

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Psychographic Variables - Lifestyle

Lifestyle segmentation groups people by

- How they spend their time
- The importance of things in their surroundings
- Beliefs about themselves and broad issues

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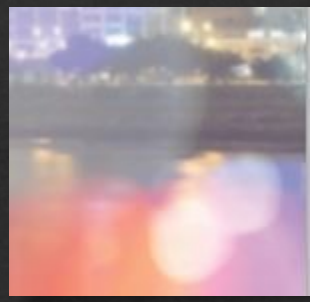
Discussion Point – Segmentation Based on Lifestyles



Source: Costa Sunglasses

This Costa advertisement for sunglass is clearly appealing to customers who enjoy fishing as a hobby.

What are some examples of lifestyle data that can help firms target customers?

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VALS Classification

- Classifies consumers based on psychological characteristics correlated with
  - Purchase behavior
  - Key demographics
- Used to determine lifestyle choices
- Used to create new products as well as segment existing markets

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Behavioristic Variables

- Dividing a market according to consumer behavior toward a product in terms of its usage
- Used by marketers to satisfy customers who use a product in a certain way
- Involves designing certain product features in such a way that makes it easier to use, safer, or more convenient

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Benefit Segmentation

- **Benefit segmentation** - division of a market according to benefits consumers want from the product
- Effectiveness depends on certain conditions
  - Benefits sought must be identifiable
  - Using the benefits, marketers must be able to divide people into recognizable segments
  - One or more of the resulting segments must be accessible to the firm's marketing efforts

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Variables for Segmenting Business Markets

- Geographic location
- Type of organization
- Customer size
- Product use

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Step 3 - Develop Market Segment Profiles

Market segment profile

- Describes the similarities of potential customers within a segment
- Explains the differences among people and organizations in different segments
- Aspects covered
  - Demographic and geographic factors
  - Product benefits sought and lifestyles
  - Brand preferences and usage rate

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Uses of Market Segment Profile

- Assess the degree to which their products fit potential customers' product needs
- Help marketers understand how a business can use its capabilities to serve potential customer groups
- Determine which segments are most attractive relative to the firm's strengths, weaknesses, objectives, and resources
- Help a firm make marketing decisions relating to a specific market segment

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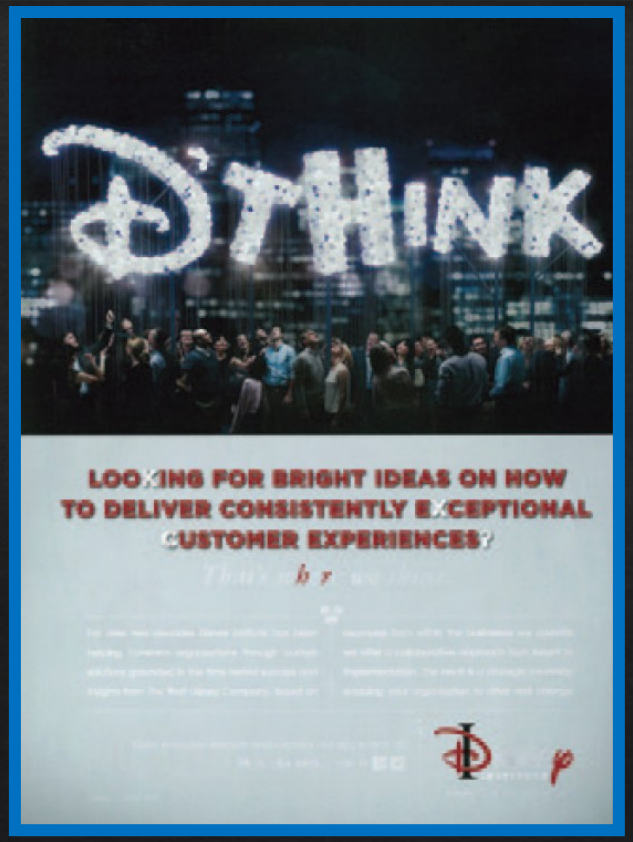
Discussion Point – Segmenting Business Markets



Source: Ruby Receptionists

Disney Institute helps businesses improve their customer experiences. It segments based on type of organization, focusing marketing efforts on companies that strive to provide an exceptional customer experience.

How does the type of organization affect the marketing strategy?

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Step 4 - Evaluate Relevant Market Segments

Market segment aspects to be evaluated

- Sales estimates
- Competition
- Estimated costs

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Market Potential

- Total amount of a product customers will purchase within a specified period at a specific level of industry-wide marketing activity
- Stated in terms of dollars and units
- Affected by economic, sociocultural, and other environmental forces

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Company Sales Potential

- **Company sales potential** - maximum percentage share of a market that an individual firm within an industry can expect to capture for a specific product
- Influencing factors
  - **Market potential** - limits the size of the company's sales potential
  - Magnitude of industry-wide marketing activities

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Approaches to Measure Company Sales Potential

- **Breakdown approach** - based on
  - General economic forecast for a specific period
  - The market potential derived from it
- **Buildup approach** - estimate product quantity a potential buyer in a specific geographic area will purchase in a given period
  - Multiply the estimate by the number of potential buyers
  - Add the totals of all the geographic areas considered

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Step 5 - Select Specific Target Markets

- Investigate if the organization has sufficient
  - Financial resources
  - Managerial skills
  - Employee expertise
  - Facilities to compete effectively in the selected segments
- Consider long-term versus short-term growth
- Conduct appropriate target market analysis

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Developing Sales Forecasts

- **Sales forecast** - amount of a product a company expects to sell during a specific period at a specified level of marketing activity
- Uses
  - Planning
  - Organizing
  - Implementing
  - Controlling activities

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Executive Judgment

Executive judgment - intuition of one or more executives

Advantages

- Expedient and inexpensive approach
- Works well when product demand is stale

Disadvantages

- Forecast may weight recent sales booms or slumps excessively
- Forecaster has only past experience as a guide for deicing where to go in the future

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Forecasting Techniques

- **Customer forecasting survey** - asking customers what types and quantities of products they intend to buy during a specific period
- **Sales force forecasting survey** - firm's salespeople estimate anticipated sales in their territories for a specified period
- **Expert forecasting survey** - hiring professionals to help with sales forecast
- **Delphi technique** - experts create initial forecasts, submit them to the company for averaging, and then refine the forecasts

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Time Series Analysis

Time series analysis - uses firm's historical sales data to discover a pattern, or patterns, in sales over time

- **Trend analysis** - focuses on aggregate sales data over a period of many years to determine general trends in annual sales
- **Cycle analysis** - analysis of sales figures for a three- to five-year period to ascertain whether sales fluctuate in a consistent, periodic manner

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Time Series Analysis (continued)

- **Seasonal analysis** - analysis of daily, weekly, or monthly sales figures to evaluate the degree to which seasonal factors influence sales
- **Random factor analysis** - attempts to attribute erratic sales variations to random, nonrecurring events

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Regression Analysis

Regression analysis - predicting relationship between dependent variable and one or more independent variables

- Simple regression analysis - one independent variable
- Multiple regression analysis - two or more independent variables
- Useful when
  - A precise association can be established
  - Available historical sales data are extensive

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Forecasting Techniques: Market Test

Market test - making a product available to buyers in one or more test

Advantages	Disadvantages
• Effective for forecasting sales of new products or of existing products in new geographic areas • Gives a marketer an opportunity to test the success of various elements of the marketing mix	• Time consuming and expensive • A marketer cannot be certain that consumer response during a market test represents the total market response, or that the same response will continue in the future

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Multiple Forecasting Methods

- Used for marketing diverse product lines but
- Required for single product line when sold to different market segments
- Required due to variation in the length of forecasts

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